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**Testimony
on behalf of the**

**International Dairy Foods
Association**

**presented before the
House Committee on Agriculture
July 17, 2001**

**by
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It is my pleasure to provide this testimony on behalf of the International Dairy Foods Association, the Washington, D.C.-based organization representing the nation's dairy processing and manufacturing industries and their suppliers. IDFA consists of three constituent organizations: Milk Industry Foundation, National Cheese Institute and International Ice Cream Association. Our 500-plus members range from large corporations to single-plant operations, and represent more than 85% of the total volume of processed fluid milk products and related cultured dairy products, ice cream and frozen desserts, and cheese produced and marketed in the United States. The membership also includes companies that supply goods and services to dairy processors who are reliant on the overall success of the dairy industry.

State of the Industry

Even though there has been greater volatility in milk prices in recent years, the U.S. dairy industry has been a bright spot among agriculture commodities. Milk production has grown by over 30 percent since 1980, reaching 167.7 billion pounds in 2000. Even more encouraging is that commercial disappearance of milk and dairy products has grown by nearly 40 percent during the same time period. This was the result of a combination of significant purchases by the government in the early 1980's (nearly 10% of total production) as well as growth in consumption of dairy products throughout the 80's and 90's.

Reductions in the level of dairy price supports and the introduction of generic advertising programs for milk and dairy products have both contributed to market growth for dairy products. Dairy producers enjoyed record high milk prices, first in 1996 and again in 1998, followed by relatively high milk price levels again in 1999 and here in the second half of 2001 (note: the June 2001 Class III price under Federal Milk Marketing Orders was the highest ever for that month). As in any industry, high farm milk prices do encourage stronger milk production growth, which in turn leads to periods of lower milk prices such as occurred in 1997 and 2000. However, the bottom line is that farm milk prices have become higher on average, while at the same time becoming less predictable and more volatile.

We urge this Committee to focus on implementing only those dairy policies which will allow the U.S. dairy industry to continue to grow. This would include a farm safety net which minimizes market price distortions and improved opportunities for risk management.

Future Policy Objectives

Our member companies are anxious to work with Congress to develop dairy policy that will improve market conditions for producers without artificially increasing prices to consumers or

distorting the market.

To measure various policy options, our boards of directors have recommended four criteria against which all dairy policy proposals should be evaluated. Any new dairy policy should:

- Be national in scope and minimize artificial enhancements of milk and dairy product prices, especially those that benefit some regions to the detriment of others;
- Provide a safety net for dairy producers that, to the maximum extent possible, does not artificially interfere with market prices;
- Promote the development and use of risk management tools by all segments of the dairy industry; and,
- Be consistent with our country's obligations, commitments and objectives with respect to international trade agreements.

Specific comments on the Committee's Concept Paper

We appreciate the fact that the Committee's Concept Paper does not include new, complicated dairy provisions that would create greater distortions in dairy markets. As this Committee is well aware, there is a long history of government programs that inhibit the dairy industry's ability to adjust to changing economic conditions and new market opportunities.

In addition, we believe the focus of legislation to assist our producers should increasingly shift to providing incentives and assistance to promote good stewardship of the land through environmental compliance and land conservation. These are costly goals, however, that may require partnerships between government and producers to be achieved. We applaud and support the provisions of this Concept Paper that provide assistance for such programs. Helping producers meet these costs helps assure an adequate supply of milk for dairy foods companies in the United States as well as prosperous U.S. dairy producers who can compete with other producers around the world.

Dairy Price Support Program

Continuation of the dairy price support program at the \$9.90 per hundredweight level is acceptable to our organization, however, we would prefer another approach that would be less likely to interfere with market prices. If the price support program is to be maintained for years to come, it is especially important that it be administered in a way that is responsive to both domestic and international markets. Notably, the Committee has allocated an estimated \$773

million for expenditures under this program during the forthcoming 10 year period. Yet last year alone USDA spent nearly \$500 million on purchases of nonfat dry milk as a result of program management that was not responsive to markets. We suggest that the Committee consider including language in the bill that would require the Secretary of Agriculture to keep product purchase prices under the program at levels that are in alignment with markets.

This is especially important because of the multiple classes and pricing formulas included in federal milk marketing order reforms implemented on January 1, 2000. If the dairy price support program is not managed to minimize government regulated differences in the value of farm milk used to make cheese versus that used to make butter and nonfat dry milk, significant regional differences in farm milk prices will result and certain products will be placed at a competitive disadvantage globally. This was certainly the case this year. Prices of milkfat were very high, greatly exceeding the price support and nonfat dry milk prices were kept above market levels by the government purchase price under the price support program. The net effect was high prices for milk used in Class I, II and IV products¹ while Class III prices were very low. Dairy producers with high milk usage in Class I, II and IV received much higher prices than dairy farmers whose milk was used primarily to make cheese. Additionally, government purchase prices for nonfat dry milk made the protein equivalent price for U.S. produced milk protein non-competitive with world market prices.

It is important to operate the price support program in a way that will maximize the export competitiveness of U.S. dairy products as ingredients and to minimize creating economic winners and losers among our own domestic dairy producers.

Dairy Export Incentive Program

We join with the National Milk Producers Federation and the U.S. Dairy Export Council in support of changes in world trade agreements that will provide increased market opportunities for our nation's dairy products. One of our highest priorities among such changes would be the elimination of subsidized exports. Until this is a reality, however, we do not object to the continuation of our country's Dairy Export Incentive Program at current levels. Again, however, the management of this program by USDA must take into account current market conditions so as to not be disruptive of markets for dairy ingredients.

¹Class I = fluid milk; Class II = soft products such as yogurt, sour cream, cottage cheese, ice cream; Class III = cheese; Class IV = butter and nonfat dry milk

For instance, domestic milkfat markets have been tight during most of the past five years, but twice in this period USDA agreed to provide DEIP subsidies to export butter and related products. In both cases, this only served to further decrease the volume of milkfat available to domestic processors, resulting in significant increases in the cost of ingredients to, for example, ice cream, cream cheese, and processed cheese manufacturers.

Additional Provisions for the Committee's Consideration

Improved Risk Management Tools

One of the most important improvements that government can facilitate is providing more opportunities for producers and processors to work together to manage milk price risk through market tools, such as forward contracting and futures markets. We support authority for permanent forward contracting for all buyers and sellers of milk regulated under Federal orders, including Class I. We urge the Committee to consider removing the prohibitions on forward contracting for Class I milk for the duration of the existing 5-year pilot program so the impacts of providing the same benefit for Class I can be tested. At the very least, the Committee should consider allowing Class I buyers and sellers to forward contract for some portion of their transactions. Currently, all other buyers and sellers in the milk market can forward contract, leaving those using or supplying Class I markets at a disadvantage.

Provisions to help promote milk sales

The Milk Processor Education Program (MilkPEP) authorized by Congress to collect funds from fluid milk processors to help promote milk sales is the only check-off program that has a sunset date built into the legislative authority for the program. A sunset date was originally sought by the milk processors themselves because they were unsure about the prospects of success of such a program. The program, however, has been hugely successful in raising the awareness of the many benefits of milk, in making it more acceptable and popular with kids, and in helping to stop the overall decline in per capita milk consumption. The MilkPEP program works hand-in-hand with the milk producer check-off program to produce many programs, ads and promotions to boost milk sales.

For instance, through a jointly funded strategic thinking project, these dairy check-off programs have provided research and ideas that have lead to broader availability of milk, single serve plastic packaging, and an expanded variety of products and flavors. The investment by the check-off programs, coupled with a significant commitment by the industry for product development, plant operations improvements and expanded distribution, is paying off in growing sales of new, more competitive products.

To ensure the uninterrupted operation of the MilkPEP program, we encourage the Committee to include provisions that would eliminate the sunset date of December, 2002, as well as two other non-controversial provisions that raise the minimum threshold for participation in the program and bring definitions into conformity with those under the federal milk marketing order program, as part of the comprehensive farm bill rewrite. The National Milk Producers Federation joins with our organization in support of these changes.

Summary

- Future dairy policy should attempt to eliminate or at least lessen the market intervention and regional distortions created by current dairy programs while providing a reasonable safety net for dairy producers.
- Enhanced risk management tools for milk buyers and sellers are needed to allow producers and processors to better manage their business.
- Working together, dairy producers and processors can create more opportunities for growth throughout the industry.

We appreciate that this Committee wants to see a prosperous U.S. dairy industry. That is also, obviously, the interest of our member companies and of dairy producers.

We have a dairy industry that is changing to meet market demands and to stay on the table in America's households as well as be accessible in multiple varieties in restaurants, schools and at other away-from-home eating occasions.

At the same time, we have a dairy industry that must work to tap new customers in other parts of the world as we realize that 96% of the world's consumers live outside our geographic borders.

Meeting these challenges will take a better partnership between producers and processors and will require policies that unshackle the industry so that it can grow and compete.